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Bulletin

No. 176

Current Issues in Corporate Telecommunications

by Nathan Weber

Management Summary

Most Corporations Plan Changes 1

92 percent of the 348 corporations surveyed plan major changes in their systems during the next three years.

Reasons for Change: Poor Service, New Technology ... 2

The decision to undertake such changes is motivated by two primary factors: Growing dissatisfaction with the quality of phone service since divestiture of AT&T on January 1, 1984; and the availability of superior technology.

Changes for Equipment, Carriers, Financing 4

Two-thirds of the corporations will change their internal phone networks, for example, by transforming desk phones into computer components capable of transmitting data as well as voice. Others will switch carriers and financing methods.

What Managers Want: Reliability 4

The two qualities that telecommunications managers seek above all in a carrier are system reliability and service. Cost is a not a primary consideration.

Bypass: A Major Trend 5

The use of bypass facilities—which enable a phone user to avoid connecting to a local phone company, thereby saving on costs—is now in use, or being planned, by over 80 percent of the firms. Almost all expect to have bypass facilities in place no later than 1988.

Public Issue: Universal Service 7

A central public policy concern regarding the use of bypass and other effects of the divestiture is the future, if any, of universal phone service.

CORPORATE RELATIONS PROGRAM

About This Report

Divestiture of the AT&T system at the start of 1984, plus the profound technological developments in voice and data transmission of the past few years, are significantly influencing the way U.S. corporations plan for and implement their telecommunications systems. To ascertain the nature of this influence and explore the actual changes taking place, The Conference Board surveyed 1,700 companies. These firms include those with sales greater than $10 million (excluding telecommunications firms), and the top 500 companies in sales, profits, employees or market value as ranked by *Forbes* Magazine. A preliminary telephone survey was conducted to identify the senior corporate official responsible for telecommunication, and 348 companies, 20 percent of the sample, provided usable responses.

Throughout the report, reference is made to "large" and "small" corporations. Those terms refer respectively to corporations with telecommunications budgets over $5 million and under $1 million.

Acknowledgments

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The Conference Board Research Bulletin

Current Issues in Corporate Telecommunications

Introduction

Major changes in telephone and other telecommunications systems are planned—or are currently being instituted—by a majority of U.S. corporations. Existing methods of electronic communication (usually consisting of a traditional telephone network), which have remained relatively stable for the past half century, are in the process of being radically changed. And this process of change will accelerate in scope and intensity, particularly during the next few years. Technological innovations in the transmission of voice, data and images, coupled with corporate dissatisfaction concerning the quality of telephone service following the divestiture of the AT&T system, are the two primary reasons for this development.

As a result of projected corporate expansion plans, telecommunications industry revenues are expected to leap from $14 billion in 1984 to $48 to $59 billion (in 1984 dollars) by early 1990's.[1] The following report, based on a survey of 348 companies, provides an overview of the extent and nature of the telecommunications changes planned by the U.S. industry. The impact of these changes on internal telecommunications budgets and the alterations in staffing and organization, impelled by the growing "revolution in communications," are among the most significant changes U.S. industry will have experienced during the century.

The Divestiture

On January 1, 1984, a century-old telecommunications system, having a reputation for quality far surpassing that of any other such network in the world, was dismantled. The giant U.S. corporation known alternatively as AT&T or the Bell System was split into seven smaller giants, plus AT&T itself. Each of the eight was now forced to engage in a kind of activity from which it had heretofore been protected—competition. Former "siblings" and their parent became antagonists. As often happens when a nuclear family breaks up, the departure brought about a certain degree of pain—both to the public and to the companies. How long that pain will last—and whether it will ever be replaced by pleasure (in the form of improved service and lower costs, the predicted benefits of competition)- is a matter that has been widely debated. What can be said with certainty is that the divestiture—perhaps the largest restructuring in U.S. corporate history—is already having a profound effect on the activities of the newly separate telecommunications companies, and, therefore, on the plans of the public.

Initially, the consequences of divestiture seemed to be concentrated among the competitors themselves, including the former Bell companies and such new entrants as GTE Sprint, MCI, Allnet, Rolm-IBM, General Datacom, and others. A tangled web of technical, legal and socioeconomic details, often described in esoteric, arcane language, made a full grasp of issues difficult, to say the least. For example, among the issues were:

How many wirelines slots would the FCC allot to each Standard Metropolitan Statistical Area (SMSA)? Would equal access be granted to the BOC's (Bell Operating Companies) for interLATA's and intraLATA's (local access and transport areas)? Or to AT&T's CCIS (common control information system) software program? Which agencies would regulate what services? Could computer firms move into telecommunications fields, and could phone companies make and sell computers? Was AT&T still, in effect, a monopoly holding on to the lion's share of the

Who's In Charge?

The AT&T divestiture is the event that precipitated the survey on which this report is based. The aim was to get an early view of corporate and public-policy reactions to this deregulation, and to the introduction of vastly superior technology.

One of the survey findings is that corporate telecommunications managers are no longer sure of the appropriate person (or function) in the telephone company to approach for complaints, service and so on. The complementary question is, of course: Who are the telecommunications managers who have provided the information for this survey?

An analysis of the functional titles of the respondents suggests that about half of these corporations still consider the telephone the primary means of communicating over distances, and therefore place responsibility for telecommunications under office services, general services, personnel, financial services, or as one of the functions of a vice president or corporate secretary. The others, however, defining telecommunications to include electronic data transmission, have introduced functional titles that use the word "telecommunications," or that have a "high tech" flavor—superintendent of technical services, MIS executive, information analysis manager, and so on.

[1] "$48 Billion for Voice and Data Equipment By Mid-1990s, Says Predicasts," Predicasts, Release February 29, 1984; "Advanced Business Communication Services Will Quintuple to $59 Billion Market by 1992," International Business Research Reports, Release #1142, June, 1983.

Table 1: Corporate Telecommunications Plans

(348 Corporations)

Changes Planned for:	Percent of Respondents[1]
Internal Network (e.g., upgrading the PBX)	70%
Long distance services	62
Terminal equipment (e.g., purchasing leased phones)	58
Access to the local loop	32
Other	9
No major changes	8

[1]Multiple responses

Table 2: Projected Change in Telecommunications Budget Costs

Percent of Increase	Percent of Respondents
Under 5%	10%
5-8%	21%
9-12%	24%
13-20%	15%
More than 20%	7%
No change	13%
Decrease	11%

market; and, if so, should it be more strictly regulated than the smaller companies? Some 9,000 pages of testimony on these related matters were filed with the FCC by industry groups, state regulatory bodies, consumer advocates, and others.[2]

While such issues were being ironed out (or further entangled) in the courts as well as in Congress, telecommunications firm boardrooms, and regulatory agencies, more prosaic concerns were felt by most typical business and residential phone users: They wanted to dial their numbers, or acquire new phones, matters that entailed, at first, much the same rote behavior as they had always entailed. But no more. That the divestiture and the accompanying technological changes have influenced the telecommunications planning of a large part of U.S. industry is clear from the the present survey.

What Will Change?

Perhaps the most dramatic finding of the current survey is that an overwhelming proportion—92 percent—of the corporations studied plan some sort of major telecommunications change within the next three years. And most of these changes will affect multiple components of the firm's communications systems, including equipment, financing and carrier selections.

As Table 1 indicates, the procedure facing change in over two-thirds of the responding companies is the in-house, standard telephone system. Typically, this consists of desk phones plus a switchboard and its attendants. Most often the change will entail upgrading this network usually known as a Private Branch Exchange or PBX, into a system that can transmit both voice and data. In effect, such a revision will transform each telephone into a computer component. In addition, over half of the corporate respondents intend to change the way their firms finance terminal equipment, for example, by purchasing telephones that they now lease. An even larger percentage (62 percent) plan to switch to another carrier for their long-distance service.

Accompanying system changes will be changes in costs for telecommunications. Three quarters of the respondents expect their costs to increase during 1984 and 1985, with a quarter of the firms planning to increase their expenditures between 9 and 12 percent. (Table 2; see page 9 for further discussion of budget and costs.)

Desired Qualities

If dissatisfaction with contemporary phone service and the lure and excitement of new technology are among the primary reasons for a firm's decision to change, what qualities do the telecommunications managers look for? And what do they want to achieve for their companies when planning for a new or revised installation?

Among respondents as a whole, that is, those with both large (over $5 million) and small (under $1 million) telecommunications budgets, system *reliability* is most often cited as of primary importance. The second most frequently cited factor is the related quality of service and support. Indeed, no further factor, cost included, came close to being cited as primary. (See Table 3.)

The relatively less important factor of cost, as computed over the life cycle of a system, was further indicated in a

Table 3: Most Important Factor in Selecting a new System

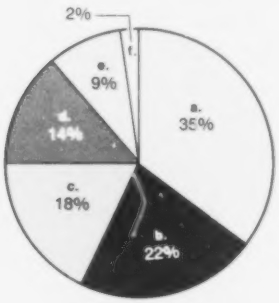
Factor	Percent of Respondents
Reliability	42%
Service and support	25
Life-cycle cost	12
Flexibility and ease of use	8
Other (special features, single vendor)	13

[2]"1984: Landmark Event of 50-Year History, Bell System Breakup, Dominates Scene," *Telecommunications Reports*, Vol. 50, #51-52, December 24, 1984, and numerous other issues.

chart 1:

Most Important Measure of Job Success Among Telecommunications Managers

(348 Corporations = 100%)



Measure:

a. Insuring that telecommunications work reliably
b. Making better use of rapidly changing technology
c. Demonstrating more efficient use of existing lines
d. Holding costs below budget
e. Installing new system without disruption or extra cost
f. Other

human resources, or personnel, context. The telecommunications managers were asked to indicate the criteria they consider most important in measuring their personal success in managing telecommunications over the next two years. The factor most often cited, by 35 percent of the respondents, was that of obtaining a system that had "reliable phones." After this came "making better use of technology"and "demonstrating more efficiency" (in that order). By comparison, cutting costs was mentioned fourth—fewer than one in seven managers identified it as crucial to their personal success in managing their firms' telecommunications system. (Chart 1) Although the cost-cutting factor as a measure of personal job success was somewhat more valued in firms with smaller telecommunications budgets, it still represents a criterion well below factors of technological or system reliability and service.

Cost considerations do become significant in one controversial area of change, known as "bypass." A host of new technologies has made it possible to bypass the local "loop"—a circuit or transmission channel that connects a phone user to a central exchange—and thereby avoid the cost imposed by that exchange. Regardless of how much companies spend on telecommunications, the cost savings far outweigh all other reasons for the decisions to bypass. In fact, cost savings in this area are cited by twice as many managers as those naming the availability of new technology. (See below for further discussion of the bypass issue.)

Deterioration of Phone Service

A year after the divestiture of the AT&T system, frustration with the quality of telephone service is almost universal among the respondents. Over four-fifths of the communications managers report that quality has deteriorated, with more than half of those so answering indicating that service "has degraded noticeably." "Very severe problems" were reported by 13 percent, and "minor problems" by another 24 percent. Almost no one believed that service had actually improved, although one out of seven discerned no significant change in either direction. (See Table 4.)

Table 4: Evaluation of Service Since Divestiture

Quality	*Percent of Respondents*[1]
Very severe problems	13%
Service has degraded noticeably	44
Minor service problems	25
No significant changes	16
Service has actually improved	3

[1]Details do not add to 100% because of rounding

Sources of Dissatisfaction

When reporting their specific grievances with current phone service, the complaint most widely mentioned was difficulty in locating personnel responsible for maintenance and information. In effect, the managers could not find mid-level managers in their phone suppliers who would take responsibility for errors and work toward correcting those complaints. There were also reports of unacceptably slow installation of equipment and mechanisms. At the same time, managers complained of a confusing plethora of vendors' options, with too little (if any) coordination among suppliers, and lack of guidelines to help make informed choices on systems and components. While about two-thirds of the respondents pointed to each of these problem areas, half expressed irritation with what they consider the mounting number of billing errors. Managers point out that rectifying errors is costly and time-consuming for the user as well as for the biller. In addition, almost half cited "slow maintenance" as one of their complaints.

Finally, the widespread dearth of competence among sales and service personnel, a noticeably lower quality in the actual transmission of voice and data, and a lack of respondents' in-house personnel having the requisite expertise to make adequate communications choices were cited as sources of complaints. (See Chart 2 for details.)

The Bypass Option

The term "bypass" refers to a form of telephone communication that avoids (or bypasses) any connection to the

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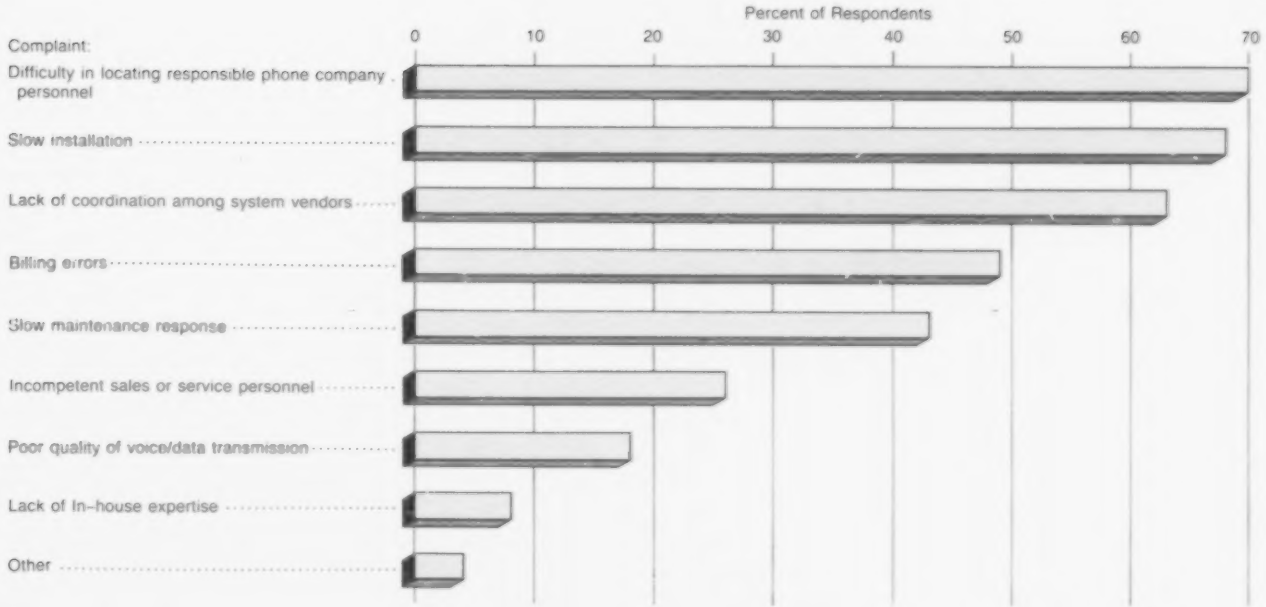
chart 2:

Most Common Complaints

(Multiple Responses)



local telephone company. Traditionally, the local phone company or exchange transmitted all phone messages made by a caller within its geographic area, whether those calls were local or long distance. While the speed of this transmission is so rapid as to be unnoticeable, there is a cost factor—of minor consequence so long as it was kept to a minimum. But as the cost rises, and as new technology makes it feasible to eliminate such electronic "detours," the appeal of bypass increases.

Over two-thirds of the respondents to this survey express significant interest in using bypass techniques. A quarter of the firms already do bypass, and the remainder are involved in varying degrees in evaluating the process. A measure of their enthusiasm is the time frame they have selected to install bypass facilities. Three-quarters of the firms plan installation no later than 1987, and another 13 percent look to use bypass techniques by 1988 or later.

Cost savings is the most important factor influencing their decision to bypass, according to more than half the respondents. (The proportions were 57 percent for the firms with smaller telecommunications budgets and 51 percent for the firms with larger budgets.) The desire to cut costs was cited more than twice as often as the next most commonly cited factor—the availability of new technology, which was mentioned by fewer than a quarter of the managers.

Increased charges by local phone companies are a partial consequence of the AT&T divestiture. While AT&T retained a virtual monopoly on both local and long distance transmission, it subsidized local usage with revenues from the more expensive long-distance calls. Such subsidies had been a mainstay of AT&T practice for half a century, reflecting a deeply rooted policy to provide affordable telephone service to virtually every home in the United States. But the entry of competitors—first in the long-distance area (even prior to divestiture), and then on the local level following the breakup—brought changes in the way phone costs were allocated. Long distance rates—reflecting actual costs—began to drop as competitors scrambled for business. Because those rates had been technically over-priced (that is, set considerably higher than the actual expense incurred by the long-distance carriers), the drop in rates seemed justified on both marketing and financial grounds.

But as long-distance rates fell, local rates, no longer subsidized, rose. In fact, they rose for two reasons. First, it was necessary to fill the "gap" left out by the withdrawal of subsidy. Second, there was a need to cover the cost of connecting the caller to a long-distance carrier. That connecting cost became known as an "access charge."

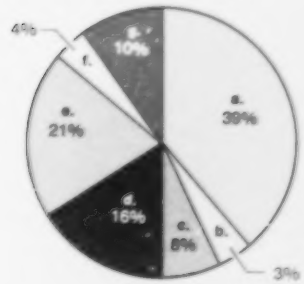
The benefits in avoiding the local exchange grow to the extent that such charges increase. As noted in a recent FCC study. "Under the access charge system of cost recovery, a moderately large business user...has an incentive to bypass switched access service and use an alternative means of carrying traffic...."[1] A study by Bell Communications

[1]Gerald W. Brock, *Bypass of the Local Exchange: A Quantitative Assessment*, (OPP Working Paper Series 12), Washington, D.C.: Federal Communications Commission, September 1984, p. 3.

chart 3:

Savings Needed to Justify Bypass

(278 Corporations = 100%)*



Amount of Savings:

a. Equivalent to return on any capital investment
b. More than 5% savings
c. More than 10% savings
d. More than 15% savings
e. More than 25% savings
f. More than 35% savings
g. No savings necessary

*Does not equal 100% because of rounding

Research, Inc. reinforces this conclusion. The study notes that while bypass facilities and usage entail their own charges, those costs are well below the rates currently charged to the end user for originating relatively moderate volumes of toll calls.... Bypass represents an attractive alternative to switched access service for many long distance customers."[4]

Since establishing a bypass network entails a substancial investment of time and money, this Conference Board survey asked telecommunications managers to specify what level of cost savings would be needed to justify the risk. Of the alternatives offered on the questionnaire, almost 40 percent chose "any savings sufficient to provide a rate of return equivalent to our other capital projects."[5] Another 10 percent indicated that bypass could be justified on other grounds than cost savings. Among the remainder, the most frequent response was more than 25 percent savings. (See Chart 3.)

Bypass Technologies

At least seven technological systems make it possible to bypass the local telephone exchange. These systems include point-to-point microwave radio, digital termination, traditional copper cable, coaxial cable, fiber optics, cable-tv hookup, and satellites. (Such technologies can be classified, or defined, in other terms. For example, some experts cite simple "television" rather than cable-tv. Also, some technologies can be subdivided: There are, for example, several different modes of microwave transmission, designed for different volumes of data.) The dramatic advances and cost reduction in digital electronics that underlie most of the new technologies, promise to blur their present distinctions to the point where they eventually comprise one overarching means of information sharing. It is only a matter of time, many experts believe, before we all communicate primarily by "pressing the buttons."[6]

Microwave radio, according to the survey data, is the most popular of the bypass technologies, and is now utilized or is being planned for by 40 percent of the respondents. Fiber optics, a transmission method that entails the use of cable containing hundreds of tiny glass fibers, with a capacity equal to massive paired wire cables, is the second most popular medium. Table 5 shows the frequency of mention of other technologies.

Policy Concerns

"The telephone system should be universal, interdependent and intercommunicating, affording opportunity for any subscriber of any exchange to communicate with any other subscriber of any other exchange."—From AT&T's first annual report (1910), cited in W. Brooke Tunstall, *Disconnecting Parties: Managing the Bell System Break-Up,* 1985.

The public-policy implications of the growing use of bypass technology have been readily evident to federal and

[4]*The Impact of Access Charges on Bypass and Universal Telephone Service,* Washington D.C.: Bell Communications Research, Inc., September 1984, p. 12.

[5]The analytical considerations in setting so-called hurdle rates are discussed in Patrick J. Davey, *Managing Capital Investments.* The Conference Board, Research Bulletin No. 165, 1984.

[6]See, for example, testimony of Jim Carpenter, Bell Research Labs, *Minutes of legislative-type hearing: Proceeding on motion of the Commission as to the provision of telephone services that bypass local exchange or toll network,* Case #28710, New York State Public Service Commission, March 15, 1984, page 81ff.

Table 5: Preference for Bypass Technologies

(348 Corporations)

System	Percent of Respondents[1]
Microwave radio	40%
Fiber optic	30
Satellite	21
Digital termination system	14
Copper cable	12
Coaxial cable	12
Cable TV	7
Other	5

[1]Multiple responses

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state regulatory agencies and, obviously, to the phone companies themselves. Heading the list of concerns is the extent to which by-pass techniques, by reducing revenues to the phone companies, will eventually impel those companies to curtail universal phone service. First to feel the effects of such a curtailment would be lower-income segments of the population. Lack of phone service could also spread to many who are today known as "the new poor." In an ironic twist, the recent layoffs of phone workers—to offset the decline in revenues resulting from competition—may swell the ranks of those unable to afford phone service.[7]

The hearings in New York during several months in 1984 present an example of the state regulatory interest in bypass. The order mandating the hearings by the State's Public Service Commission spelled out the regulatory worries. Among the stated concerns are: "To what extent and in what time frame may bypass pose a threat to toll and local exchange service and rates? Under what circumstances is local telephone network bypass in the public interest? In particular, is toll or local exchange competition necessary to assure that communications capabilities exist that fully meet the future needs of the state's economy? Does the public interest require that bypass services be regulated, and if so, in what manner? What regulatory approaches will best encourage construction of bypass facilities that serve the public interest and discourage construction of those that do not?"[8]

On the national level, the FCC imposed a flat fee, known as an end-user charge, at the end of December, 1984. This $1-per-month charge on residential and single-line business users of phone service is to take effect in June 1985, and is to be raised to $2 the following June. At that time, the charge will be frozen. Revenue from this "end-user charge" will go directly to the local companies, where it will be used to offset the expense that they now incur when connecting a call to a long-distance carrier, and that they recoup through imposition of an "access charge." The intended effect of the new end-user charge is to lessen the desirability of bypass, and thus to counter the threat that the increasing use of bypass facilities will force the phone companies to curtail universal service. (An existing fee of $6 charged to businesses so far has not achieved that goal.) For very low-income customers who meet a state-established income means test, the end-user charge can be reduced by half, if the respective states agree.

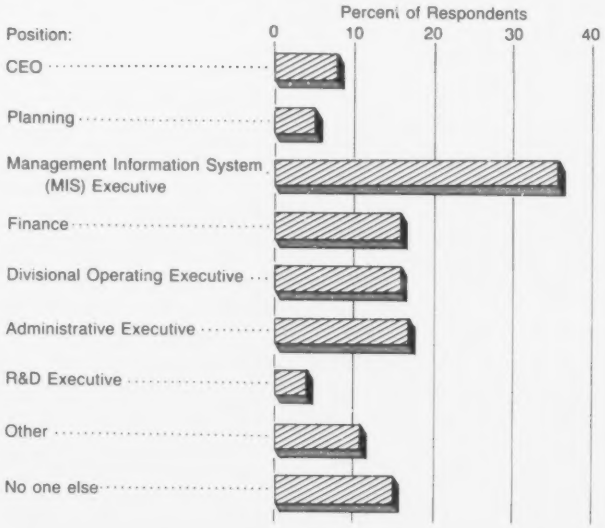
[7]Gene Kimmelman and Mark Copper, *Divestiture: One Year Later*, Washington, D.C.: Consumer Federation of America, 1984; Lester C. Thurow, "A Rising Tide of Poverty," *Newsweek*, July 11, 1983, p. 62; John Wilke, "Surprise: Ma Bell's Babies Are Stealing the Show," and "The New AT&T Struggles to Get to its Feet," *Business Week*, December 13, 1984, pp. 92, 96.

[8]State of New York Public Service Commission, Case #28710, issued December 27, 1983.

chart 4:

Responsibility for Telecommunications Planning

(Shared with Telecommunications Manager)



Opposition to the levy of an extra charge came from consumer groups, who argued that residential users have seen their bills skyrocket in the last few years, and that other means were available to recapture revenues lost to bypass. By contrast, many in the telecommunications industry characterized the $1 addition as far too little to cover their losses.

The phone companies themselves seem to be caught in a peculiar economic dilemma. On the one hand, they will lose revenue from each customer who avoids utilizing their exchanges. They warn, therefore, that they will be forced to charge higher and higher rates to an ever-dwindling pool of users, the end-user charge notwithstanding. On the other hand, as bypass users represent a burgeoning market for special equipment, more and more of these same companies plan to provide bypass equipment of their own—equipment that will enable customers to eliminate not only their own loops but, significantly, the exchanges of their competitors as well.

Organizing for Telecommunications Change

The value accorded new or forthcoming corporate policies may often be gauged by the extent to which firms reorganize to manage these issues. By this measure, telecommunications matters are clearly valued highly by U.S. industry. In the survey, two-thirds of the 348 participating corporations have undertaken changes in organization and/or staffing to better handle their communications within the last two years. Most often—in a third of the firms—the change has consisted of consolidating the telecommunications function, which had formerly been dispersed throughout several departments.

A quarter of the companies have also altered the chain of command by shifting responsibility for the function to a different part of the corporate organization. The position of the person in charge of telecommunications was moved closer to the chief executive by 25 percent of the respondents (but only about one in twelve corporations actually placed that position in a more direct reporting relationship to the CEO).

Planning and implementation of telecommunications policy, once the responsibility of administrative management, is increasingly involving more top executives. For 90 percent of the firms, active planning or managing telecommunications is handled by personnel in addition to the telecommunications manager. Most often (36 percent of the cases), it is the executive in charge of Management Information Systems who is involved in this planning. (See Chart 4 for other personnel involved.)

Pace of Planning

Respondents were asked whether or not the recent changes in both regulation (i.e., the divestiture and related rulings) and technology had speeded up—or postponed—their plans. Two-thirds of the companies with telecommunications budgets over $5 million report that their schedules had been altered. Over two fifths of the companies with the budgets under $5 million also report schedule changes.

Table 6 presents the details of why firms with telecommunications budgets over and under $5 million either postponed or accelerated their activities. For both categories of firms, the most commonly cited cause of acceleration in corporate telecommunications planning and implementation was rising costs. The second most frequently cited cause was a recognition of the "need to control our own network."

Table 6: Reasons for Altering Telecommunications Planning

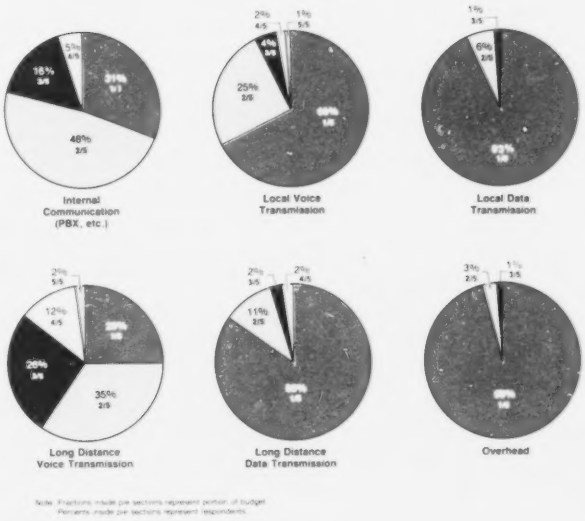
	Size of Budget	
Postponed Planning Due to[1]	*Over $5 million*	*Under $5 million*
Regulatory uncertainty	17%	11%
Technological changes	11	10
Uncertainties following Bell breakup	9	14
Accelerated Planning Due to[1]		
Rising costs	49	26
Need to control own network	37	18
Service problems	27	7
Threatened regulatory actions	20	5
Other factors	6	6

[1]Figures do not add to 100% because some respondents checked more than one category, while other repondents checked no category.

chart 5:

1983 Telecommunications Budget Allocations

Percent of Respondents



Budgets and Costs

Telecommunications budgets vary so widely among respondents—from a low of $40,000 to a high of over $350 million—that analysis based on simple averages would be meaningless. For the purposes of this study, firms were grouped according to the range of budgetary allocations. During 1983, a third of the firms had budgets under $1 million, another third spent between $1 and $5 million, somewhat over a fifth allocated between $5 million and $25 million, and the remainder spent upwards of that amount.

Corporate telecommunications costs tend to be apportioned among the following areas: internal communications (i.e., costs associated with PBX and equipment); voice and data over long-distance lines; and overhead. Respondents were asked to stipulate the share of their budgets that went for each of the above categories of costs. *Internal communications* and *long-distance voice transmission* received most of the corporate budget allocations. For the first category, which includes the PBX system and the terminals, half of the firms spent between 20 and 40 percent of their budgets; another third spent up to 20 percent. (See Chart 5 for further details.)

Since most of the competition within the telephone industry centered on long-distance transmission, respondents were asked to indicate their largest—most costly—source of long-distance service. Well over half (58 percent) noted

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that was AT&T's WATS (Wide Area Telephone Service) lines; no other source of long-distance service came close. For example, the second most frequently cited source was AT&T's message tolls, mentioned by under 15 percent; another 10 percent indicated AT&T's special Private Lines as their most costly long distance service.

Summary

Corporate telecommunications policy is rapidly assuming a higher priority, with appropriate alterations in staffing and organization. A change of this magnitude reflects the enormous innovations in voice and data transmission during the past several years, and the restructuring of the world's largest telephone company at the start of 1984.

One year after the divestiture of AT&T, corporate policymakers have reached several key conclusions:

- They are very dissatisfied with the existing quality of phone service;

- They expect, for the forseeable future, to budget increasing sums on new and superior voice, data and image transmission systems;

- The two primary factors that will influence their decision to select a system from one telecommunications supplier over another will be technical reliability and dependable service. The success or failure of the newly independent telecommunications firms will hinge, to a great degree, on the way they address these concerns.

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Summer Youth Employment: 1985 Edition

By Nathan Weber

Management Summary

More Hired in 1984 3

Public-private job coalitions in 14 major cities placed 13,000 more youths during the Summer of 1984, but not all cities reported gains.

Availability Peaks 3

While youth unemployment remains high, the availability of summer jobs may have peaked.

Fast Food, Clerical Jobs 4

Most youths during the Summer of 1984 worked in fast food establishments and in clerical jobs.

CORPORATE RELATIONS PROGRAM

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THROUGH the efforts of public-private coalitions in 14 major cities, more than 13,000 young people were placed in jobs during the Summer of 1984 than during the previous Summer. As reported by coalition administrators, in most of those cities, the youths worked primarily in fast-food establishments, and in corporate and government offices where they performed clerical tasks, including word processing. A seasoned program staff in each of the 14 coalitions, year-round planning, and continued economic growth accounted for these gains. Nevertheless, only half of the program administrators foresee an increase in jobs for youths during the Summer of 1985. The others maintain that the market for summer work in their areas may have peaked—even without a worsening of the economy. As noted by the coordinator for Baltimore's program: "The need for jobs is still there; however, the market for summer help may be essentially saturated."

Table 1 compares the number of youths placed in jobs during the Summers of 1984, 1983, and 1982, in each of the 14 cities. In some of the cities the figures understate the actual number of youths who found jobs because some youths obtained employment through other means, including traditional government programs that were in place prior to the creation of the public-private coalitions. In Pittsburgh, for example, the table shows 210 youths employed; in fact, a total of 1,970 youths were placed in that city, although most of them found jobs through a program established by the city government. The Pittsburgh government program operates in much the same way as it has always functioned, except that now it is legally answerable to the Private Industry Council.

This report surveys only those programs—or facets of programs—actually administered by the relatively new private or private-public coalitions. Increasingly, however, the distinction between the traditional municipal programs and those operated through coalitions is blurring, primarily because most programs obtain federal funding. Use of those funds is dependent on establishment of a Private Industry Council (PIC), which is itself a coalition. In many cities—Richmond, Virginia, is an example—the municipal agency already serves as a subcontractor of the PIC.

Coalitions accounting for most of the 13,000 increase in employed youths include those in New York City (6,000 over 1983); Los Angeles (2,600 over 1983); Miami (1,300 over 1983); Houston (1,000 over 1983); Seattle and Boston (700 each over 1983). Table 2 presents a breakdown of jobs obtained in the private sector and in public (government and community) service.

Information on the number and type of youth placements was provided by administrators of private-public youth employment coalitions in 14 major cities.

Table 1: Summer Job Placements

	1984	1983	1982
Baltimore	3,969	3,760	1,740
Boston	1,939	1,181	852
Chicago	1,877	2,591	730
Cleveland	1,341	1,007	125
Detroit	527	400	400
Houston	6,000	5,000	3,000
Los Angeles	10,113	7,436	6,940
Miami	3,388	2,010	940
New York City	26,542	19,798	15,789
Omaha	344	370	310
Pittsburgh	210[a]	215[a]	210[a]
Richmond	890	1,177	1,086
San Francisco	1,340	1,262	806
Seattle	3,251	2,604	NA

a Applies only to facet of program in which corporations participate.

Table 2: 1984 Placements in Private Sector and Public Service

	Private Sector	Public Service
Baltimore	2,782	1,180
Boston	1,766	173
Chicago	1,451	426
Cleveland	719	622
Detroit	73	454
Houston	6,000	0
Los Angeles	10,108	5
Miami	2,863	525
New York City	26,422	120
Omaha	344	0
Pittsburgh	0	210
Richmond	510	380
San Francisco	1,222	118
Seattle	240	3,011

Youth Unemployment

While the increased placements reported by the programs offer reason for optimism, they represent at best a tiny dent in a continuing, pervasive problem.

The national unemployment picture for youths between the ages of 16 and 19 showed some improvement over the previous Summer, but remained at extremely high levels. According to the U.S. Bureau of Labor Statistics, youth unemployment nationwide stood at 18.4 percent (seasonally adjusted) for the months of July and August, 1984—virtually three times the adult unemployment rate for the same period. And for black youths, the rate reached 42.3 percent. During the previous Summer, the respective rates were 23 percent for all youths, and 50 percent for black youths.

Federal unemployment figures tend to understate the actual number of both youths and adults who are jobless but capable of working. They do not include those officially designated as "discouraged workers," that is, people who have ceased looking for employment after experiencing a fruitless job search.

Furthermore, the reported decline in the youth unemployment rate does not mean that the equivalent number of youths actually found jobs. Part of the reported decline is attributable to a lowering of the number of youths entering the labor market in 1984—which reflects a reduction of the teenage population caused by an aging of the post-World War II baby-boomers, according to the Bureau of Labor Statistics (BLS).[1] A similar factor accounts, in part, for a reduction in the adult unemployment rate. According to the Research Institute of America: "One reason behind the sudden and unexpected unemployment drop: Married women with kids aren't rushing into the labor force....Women with children flooded the labor market in the late '70s and up to the 1981-82 recession in order to cope with inflation. But as inflation ebbed, the urgent need to replace purchasing power lost to inflation became less urgent and more women stayed home."[2] To the extent that the decrease in the youth unemployment rate does not reflect a significant gain in actual employment, the future prospects for today's young workers are disturbing. As documented in a study released at the start of 1984 by the National Planning Association: "In short, the evidence is that long duration unemployment in the early years in the labor market will lower earnings for a long time....Thus, youth, especially minorities, experiencing unemployment during the first part of the 1980s will have lower wages throughout the decade."[3]

Where the Jobs Are

As shown in Table 3, the largest number of jobs in most of the cities were in fast-food establishments and in clerical-secretarial work. Both fast food and clerical work are expected to provide most of the youth jobs next Summer, according to program administrators.

While any starting job can provide valuable basic employment skills, contemporary office work is more likely to offer training that can be successfully marketed later on, particularly in offices utilizing word processors. In eight cities—Baltimore, Boston, Chicago, Los Angeles, Miami, New York City, Seattle and San Francisco—clerical and secretarial work, including word processing, accounted for approximately a quarter to a half of the jobs. A promising innovation in Boston was the establishment of mini-academies in word processing, typing and office procedures for students, including four to six weeks of training at a central facility, directly prior to job placement. Seattle also provided paid work training for eight weeks, after which some youths were placed in permanent private-sector jobs.

Youths also found work as maintenance, stock and retail clerks, tutors, health-facility and day-care aides, auto repair and laboratory assistants, machinists, light assembly workers, house painters, minor home repairers, messengers, community cleanup workers, lifeguards, amusement park aides, and cashiers.

Program Improvements

Improvements in program planning and administration were reported by most of the administrators. Heading the list of changes from the Summer of 1983 were earlier planning, increased coordination among participants in the various coalitions, and tighter program operations through, for example, centralization.

Several cities, including New York, Houston and Richmond, placed added emphasis in 1984 on informing employers of the financial benefits in utilizing the Targeted Jobs Tax Credit. The TJTC—which was extended by Congress through the end of 1985—provides employers with a tax credit of 85 percent of the first $3,000 they pay in salaries to low-income 16- and 17-year-old youths hired during the Summer. A study prepared for the U.S. Department of Labor found that the relatively low utilization of the TJTC was due, in part, to ineffective promotion of the program.[4]

Chicago centralized the administration of its project, and computerized the matching of applicants to jobs. Improved marketing of the youth-employment effort to corporations was reported by Richmond, Seattle and Houston. Detroit's efforts to solicit corporate participants were enhanced by White House recognition for its 1983 program. Miami increased its media coverage, as did Houston. Baltimore appointed a year-round summer-jobs coordinator, and secured two co-chairmen to head its business committee.

Of major interest were the successful efforts of three cities to transform summer jobs into permanent full-time or part-time employment. Those cities were Miami, Seattle and Boston—with the latter noting that an impressive 39 percent of its youthful placements were able to continue

[1] "Flood of Teenagers Into Job Market in Summer of 1984 Will Be Smaller," *Daily Labor Report*. May 29, 1984, p. A-10.

[2] *Research Institute Report*, January 13, 1984, p. 2. Also Alan Murray, "Growth of Labor Force Slows, Raising Hopes of Lower Jobless Rates," *Wall Street Journal*, January, 4, 1984.

[3] Daniel H. Saks, *Distressed Workers in the Eighties*, Washington, D.C.: National Planning Association, 1983, p. 26.

[4] Philip Richardson and others, *Study of Targeted Jobs Tax Credit Summer Youth Experience*, Washington, D.C.: Prepared for the Employment and Training Administration, U.S. Department of Labor, April, 1984.

Table 3: Where Youths Were Placed

	Fast Food	Clerical–Secretarial–Word Processing	Delivery	Community Improvement (Cleanup)	Other (Maintenance, Repair, Tutors, Social Service, Sales, etc.)
			Percent of Placements		
Baltimore	10%	30%	1%	12%	47%
Boston	1	53	6	1	39
Chicago	8	62	10		20
Cleveland	26	6	1		67
Detroit		10	43	45	3
Houston	40	8	10		42
Los Angeles	50	35	10	5	
Miami	39	31	9	15	6
New York City	55	23	7		12
Omaha	25	11	1	12	51
Pittsburgh				100[a]	
Richmond[1]					
San Francisco	21	52	1	3	23
Seattle	4	55	1	8	32

[a] Pertains only to one facet of Pittsburgh's program (see page 3).
[1] Information not available.
Details do not add to 100% because of rounding.

on the job part-time after the Summer ended. Baltimore was able to guarantee summer jobs to students who made the honor roll and who maintained excellent school attendance records. And Detroit enrollees participated in a mock trial in which they undertook the roles of judge, attorney and jurors as part of a six-week law-education project. Other Detroit students studied minor home repair.

Legislative Developments

Several bills pertaining to youth unemployment were before the Congress during 1984. They included a bill to provide additional funding for summer jobs under the Job Training Partnership Act, a bill to establish a subminimum wage, and a bill to provide part-time jobs and training skills to high school students.

Summer Jobs Funding

On July 2, 1984, President Reagan signed Public Law 98-332, to provide $100 million for an additional 100,000 summer jobs for young people. Numerous city officials asked for the additional money when they discovered that their grants for 1984 would amount to less than those for the previous Summer, which had been distributed under the now-defunct Comprehensive Employment and Training Act (CETA). With the replacement of CETA by the Job Training Partnership Act (JTPA), funding for summer jobs is spread out over 100 more jurisdictions (known as Service Delivery Areas). Thus cities like Chicago, Cleveland and Dallas stood to lose over 40 percent of their funding. Furthermore, the old "hold harmless" clause in CETA, which limited how much a community's grant could be reduced from its previous year's grant, was discontinued under JTPA.

But it was not merely the decrease in funds that provoked controversy.[5] Those funds were part of a $1.4 billion emergency spending bill, which included funding for child nutrition and food for low-income pregnant and nursing women—and an additional $21 million in covert aid against the Sandinista government in Nicaragua. After several months of often vituperative debate, mainly between the Administration and Congress, the spending bill was passed without the covert aid funds.

Subminimum Wage

Controversy also marked introduction of President Reagan's subminimum-wage proposal. The proposal would have enabled employers to pay only $2.50 an hour to youths during the Summer—or 75 percent of the current minimum of $3.35. Spokespersons for the proposal, including Secretary of Labor Raymond J. Donovan, argued that, by reducing the cost to employers—primarily small businesses—the subminimum wage would enable many more youths to be hired.

Supporters of the proposal included the Chamber of Commerce of the United States, the National Alliance of Business (NAB), and—with reservations—the National Conference of Black Mayors. The NCBM endorsed the

[5] "Plans to Add $100 Million for Summer Youth Jobs Being Delayed in Congress," *Daily Labor Report*, April, 25, 1984, p. A-11.

concept as an experiment for one Summer, provided the subminimum wage did not result in the replacement of adults by youths. Similarly, the NAB conditioned its support on a recommendation that legislation contain a provision "allowing for early termination" if an annual evaluation of the program reveals "ineffectiveness or abuse." The Administration's bill, known as the Youth Employment Opportunity Wage Act of 1984, did contain a provision prohibiting employers from replacing adults working at or above the minimum with youths hired at the subminimum.

Opponents of the proposal included organized labor, the Black Congressional Caucus of the House of Representatives, and Senator Edward M. Kennedy (D–Mass.) and Representative Augustus F. Hawkins (D–Cal.), who introduced an alternative bill. (See "Jobs During School" below.)

Critics argued that the proposal would merely encourage the substitution of older for younger workers, notwithstanding the bill's prohibition of that eventuality. Representative George Miller (D–Cal.) maintained that enforcement of even the present minimum is poor, and that studies of earlier subminimum wage plans concluded that displacement of older workers was predictable.[6] Other opponents saw the proposal as constituting a "two-tiered racial minimum wage" and, therefore, comprising "apartheid, American style."[7] They maintained that no evidence existed to demonstrate that more youths would, in fact, be hired under a subminimum wage. The proposal died in Congress.

Jobs During School

A third initiative, sponsored by Senator Kennedy and Representative Hawkins, was designed to provide part-time jobs for low-income students during the school term, and full-time jobs in the Summer. Entitled the Youth Incentive Employment Act, the bill provided for federal appropriations of $2 billion for fiscal 1985, to subsidize the initial salaries of the enrollees.

Summer work, either in public or for-profit organizations, would have to be a continuation of the work performed during the school year. Based on an experimental program in which 76,000 youths participated between 1977 and 1980, the legislation aimed to encourage potential dropouts to remain in school and to provide them with marketable training. While it did not engender the intense opposition that greeted the subminimum wage proposal, the Kennedy-Hawkins legislation was not voted out of committee.

[6] "Administration's Subminimum Wage Plan Faces Bleak Future in Congress," *Daily Labor Report,* July 10, 1984, p. A-14.

[7] See comments of Rep. Gus Savage (D–Ill.) in "President's Subminimum Wage Plan Draws Strong Black Caucus Criticism," *Daily Labor Report,* May 18, 1984, p. A-13.

Resources

Several new publications for administrators of summer youth-employment programs became available during 1984. Among them were: *A Practitioner's Guide: Strategies, Programs, and Resources for Youth Employability Development,* Public-Private Ventures, Philadelphia, Pennsylvania. which offers recommendations and presents case studies; *JTPA Follow-Up: A Decision-Maker's Guide to the Issues.* National Governors' Association, Washington, D.C., which provides information on developing usable performance measurement and reporting methods under the Job Training and Partnership Act; *Work-America,* the monthly newsletter of the National Alliance of Business, which provides up-to-date reports on job-training partnerships in localities across the country. In March, the NAB was the recipient of a $7.5 million grant from the U.S. Labor Department to provide technical assistance and support to the private sector to implement programs for low-income youth and dislocated workers under the JTPA. The grant extends through June, 1985.

Corporate Initiatives

In addition to participating in Private Industry Councils or other coalitions, some corporations conduct their own programs to address the issue of summer joblessness. In Detroit, the Michigan Consolidated Gas Company provided $127,000 to nine agencies to hire 200 youths. The young workers were employed to weatherize homes for senior citizens, tutor other teenagers in reading and math, assist with child care services, repair autos, and participate in neighborhood improvement projects.

Chevron—the Standard Oil Company of California—announced in May, 1984, that it was providing $250,000 to hire youths in 18 cities. In a statement issued to the press, Chevron officials noted that its "first of its kind" project will provide "meaningful job experiences for young people who need them to prepare for future employment. We're pleased that regular, punctual attendance, attention to the quality of work, and productivity are integral facets of the programs." Such goals motivate the operations of private and private-public youth employment coalitions throughout the country.

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